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I.T.L. INDUSTRIES LIMITED
ANNUAL REPORT
1977





CORPORATE INFORMATION

DIRECTORS

C.A. Bell, Q.C.
Windsor, Ontario

Robert E. Deane
Windsor, Ontario

Peter Hedgewick
Windsor, Ontario

Robert D. Hill
Birmingham, Michigan

C.W. Leonardi, C.A.
Mississauga, Ontario

G. Wallace Wood
Don Mills, Ontario

Senior Partner
Bell & MacEachen, Barristers & Solicitors

President and Chief Executive Officer
I.T.L. Industries Limited

Chairman of the Board
I.T.L. Industries Limited

Independent Financial Consultant

Executive Vice-President Finance
Jannock Limited

President
Jannock Tube Limited

OFFICERS

Peter Hedgewick

Robert E. Deane

C.A. Bell, Q.C.

J. Robert Ohrling, C.A.

Chairman of the Board

President and Chief Executive Officer

Secretary

Treasurer and Corporate Controller

AUDITORS

Ernst & Ernst, London, Ontario

STOCK LISTING

The Toronto Stock Exchange

TRANSFER AGENT AND REGISTRAR

National Trust Company Limited, Toronto, Ontario

I.T.L. GROUP OF COMPANIES

I.T.L. Industries Limited
3805 Malden Rd.
P.O. Box 7068
Windsor, Ontario N9C 3Y8

International Tools (1973) Limited
3805 Malden Rd.
P.O. Box 7068
Windsor, Ontario N9C 3Y8

Reflex Division
3805 Malden Rd.
P.O. Box 7068
Windsor, Ontario N9C 3Y8

I.T.L. Industries, Inc.
Mid-Ohio Industrial Park
Hebron, Ohio
P.O. Box 877
Newark, Ohio 43055

Ray-O-Lite Division
P.O. Box 877
Newark, Ohio 43055

Wheatley Manufacturing Division
2590 Ouellette Avenue
P.O. Box 366
Windsor, Ontario N9A 6L8

Wheatley Manufacturing Division
963 Martingrove Road
Toronto, Ontario M9W 4V6

Wheatley Die Supply
760 Halpern Avenue
Dorval, Montreal, Quebec H9P 1G6

Wheatley Economy Die Sets
23751 Dequindre
Hazel Park, Michigan 48030



REPORT TO THE SHAREHOLDERS

Sales for the year ended November 30, 1977 were \$19,434,000 compared to \$14,218,000 for the prior year. The net earnings for the period were \$1,810,000 compared to a net loss of \$1,889,000 in the prior year. Working capital as at November 30, 1977 was \$718,000 as compared to a deficit working capital position at the previous year end of \$1,307,000.

The Board of Directors wish to thank the employees of the Company for their services and efforts during the recent period. It is through their combined efforts that the operations of the Company have returned to a profitable position.

TOOLS DIVISION

During the past year, the operations of the Tools Division have shown a marked improvement. The open order backlog at the present time is at an all-time high level. Production levels have followed the open order pattern and shipments are continuing at this high volume level.

We have been fortunate in obtaining experienced skilled trades from England and the apprenticeship program is continuing to develop new trained skilled tradesmen.

WHEATLEY DIVISION

The Wheatley Division continued to operate at a capacity level during the period. Several new product lines have been developed and with the introduction of these lines, it is anticipated that both sales and income levels will improve substantially.

REFLEX DIVISION

The Reflex Division is continuing to capitalize on its ability to manufacture reflective lens and its proprietary Palm-N-Turn prescription drug vial product line. Major new orders for automotive parts were received in 1977; however, some carry-over products were dropped.

For the up-coming year, we have received major new automotive lens work which will add to the total volume of business for the division.

ITL INDUSTRIES, INC.

The Newark operation suffered from lack of volume during the 1977 fiscal year. This situation has been overcome with the development of major new customers and a change in the marketing concepts of the operation.

OVERVIEW OF THE OPERATIONS

The markets in which the Company is operating continue to be buoyant. We see at this time, a profitable operation continuing throughout the 1978 fiscal period.

On behalf of the Board of Directors

Robert E. Deane
President & Chief Executive Officer



CONSOLIDATED STATEMENT OF EARNINGS AND DEFICIT
I.T.L. INDUSTRIES LIMITED AND SUBSIDIARIES

	Year ended November 30	
	1977	1976
Sales	\$ 19,434,223	\$ 14,217,751
Cost of sales, selling, general and administrative expenses	16,659,624	14,399,237
Depreciation	734,082	856,692
	17,393,706	15,255,929
EARNINGS (LOSS) FROM OPERATIONS	2,040,517	(1,038,178)
Interest		
Long-term debt	404,928	533,553
Short-term debt	299,308	278,291
Amortization of financing costs and patents	24,990	24,988
	729,226	836,832
EARNINGS (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	1,311,291	(1,875,010)
Provision for income taxes		
Relating to companies with losses carried forward	522,000	— 0 —
Relating to other companies including deferred income taxes (1977 — \$28,000; 1976 — \$13,900)	53,000	13,900
	575,000	13,900
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEMS	736,291	(1,888,910)
Extraordinary items — Note 12	1,074,090	— 0 —
NET EARNINGS (LOSS)	1,810,381	(1,888,910)
Deficit — beginning of year	(3,803,247)	(1,914,337)
DEFICIT — END OF YEAR	\$ (1,992,866)	\$ (3,803,247)
Earnings (loss) per share based on weighted average and after deduction for unpaid preference share dividends		
Before extraordinary items	\$.37	\$ (1.27)
After extraordinary items	\$ 1.04	\$ (1.27)

See notes to consolidated financial statements



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
I.T.L. INDUSTRIES LIMITED AND SUBSIDIARIES

	Year ended November 30	
	1977	1976
SOURCE OF WORKING CAPITAL		
Net earnings (loss) before extraordinary items	\$ 736,291	\$ (1,888,910)
Items not affecting working capital		
Depreciation	734,082	856,692
Amortization	24,990	24,988
Deferred income taxes	28,000	13,900
Gain on disposal of fixed assets	(16,623)	(201,239)
FROM OPERATIONS	1,506,740	(1,194,569)
Proceeds on disposal of fixed assets	617,376	283,540
Income less expenses applicable to discontinuation and reduction of operations	244,347	— 0 —
Recovery of income taxes	698,000	— 0 —
	3,066,463	(911,029)
USE OF WORKING CAPITAL		
Additions to fixed assets	465,299	308,345
Reduction of long-term debt	400,191	870,937
Income taxes applicable to extraordinary items	176,000	— 0 —
	1,041,490	1,179,282
 INCREASE (DECREASE) IN WORKING CAPITAL	 2,024,973	 (2,090,311)
 WORKING CAPITAL (DEFICIENCY) — BEGINNING OF YEAR	 (1,307,161)	 783,150
 WORKING CAPITAL (DEFICIENCY) — END OF YEAR	 \$ 717,812	 \$ (1,307,161)

See notes to consolidated financial statements



See notes to consolidated financial statements

Peter Hedgewick Director

Robert E. Deane _____ Director

November 30

1977

1976

LIABILITIES

CURRENT LIABILITIES

Bank advances — Note 5	\$ 3,147,313	\$ 2,386,777
Demand notes payable to debentureholders — Note 9	500,000	500,000
Accounts payable and accrued liabilities	3,440,570	2,571,701
Accrued interest	255,485	407,447
Income tax payable	33,969	— 0 —
Current instalments of long-term debt — Note 7	740,210	1,157,310
TOTAL CURRENT LIABILITIES	8,117,547	7,023,235

LONG-TERM DEBT — Note 7	4,817,992	5,218,183
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DEFERRED INCOME TAXES — Note 6	319,000	291,000
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SHAREHOLDERS' EQUITY

SHARE CAPITAL — Note 8

Issued and fully paid

44,000 6-1/2% Preference shares, series A	1,100,000	1,100,000
43,800 6-1/2% Preference shares, series B	1,095,000	1,240,000
1,609,336 Common shares	3,141,000	2,996,000
	5,336,000	5,336,000

ADDITIONAL PAID-IN CAPITAL	193,034	193,034
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DEFICIT	(1,992,866)	(3,803,247)
	3,536,168	1,725,787
	\$ 16,790,707	\$ 14,258,205

AUDITOR'S REPORT TO THE SHAREHOLDERS

I.T.L. Industries Limited and Subsidiaries

We have examined the consolidated balance sheet of I.T.L. Industries Limited and subsidiaries as at November 30, 1977 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The consolidated financial statements for the preceding year were reported on by other auditors.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
I.T.L. INDUSTRIES LIMITED AND SUBSIDIARIES
November 30, 1977

STATEMENT OF ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, I.T.L. Industries, Inc. and Wheatley Manufacturing Limited and its subsidiaries. Intercompany transactions and the year-end account balances have been eliminated on consolidation.

Inventories: Inventories, other than tooling jobs-in-process, are stated at the lower of cost and net realizable value. Cost is determined principally at standard which approximates first-in, first-out cost.

Tooling jobs-in-process are stated at the lower of accumulated contract costs and proportional contract net realizable values.

Receivables: Receivables are shown net of allowances for doubtful accounts.

Fixed Assets: Fixed assets are carried at cost. Depreciation and amortization, which are based on management's estimate of the useful life of the assets, are calculated on a straight-line basis. Profits and losses on the sale of fixed assets are charged to operations unless of an extraordinary nature.

Deferred Income Taxes: Deferred income taxes are included in the statements for differences between the income and expenses reflected in the statements and the amounts included in the computation of income for tax purposes for the current year, provided that such difference will be included in the computation of income for tax purposes in future periods.

Deferred income taxes are set up at the tax rate of the year and are drawn down at the average rate of accumulation.

Intangibles: Excess of cost of investment in subsidiaries over book value of net assets acquired is recorded as an intangible asset. It has not been amortized as management believes it has a continuing value. However, any goodwill relating to acquisitions after March 31, 1974 will be amortized in accordance with generally accepted accounting principles.

Deferred financing and other similar costs are amortized over the period of the obligation in proportion to the amount of debt outstanding. Patents are amortized over the life of the respective patent.

Translation of Foreign Currencies: Translation of accounts in foreign currencies has been made as follows:

- (a) Current assets and current liabilities — at rate of exchange at the balance-sheet date
- (b) Other balance sheet accounts and depreciation expense — at the rate of exchange prevailing at the time of acquisition
- (c) All items, excluding depreciation, on the statement of earnings — at the average rate of exchange for the year.

Revenue Recognition: Generally revenue is recognized in the accounts at the time the product is shipped and billed to the customer. With respect to contract tooling, revenue is recognized when the original contract is complete and the amount billed to the customer.

NOTE 1 — INVENTORIES

	<u>1977</u>	<u>1976</u>
Finished goods	\$ 1,296,187	\$ 911,393
Work-in-process	1,803,032	1,297,860
Raw materials	421,287	595,692
	<u>\$ 3,520,506</u>	<u>\$ 2,804,945</u>

See Note 5 with respect to bank loan security.

NOTE 2 — FIXED ASSETS

	<u>1977</u>		<u>1976</u>
	Cost	Net	Cost Net
Land	\$ 171,364	\$ 171,364	\$ 219,836 \$ 219,836
Buildings	2,884,166	2,177,456	3,164,795 2,467,148
Machinery & equipment	7,913,843	2,641,699	7,808,937 2,948,462
Tools & dies	1,662,163	504,459	1,389,899 415,326
	<u>\$ 12,631,536</u>	<u>\$ 5,494,978</u>	<u>\$ 12,583,467</u> <u>\$ 6,050,772</u>

Insured value as at November 30, 1977 is \$16,400,000 (1976 — \$15,900,000).

Note 7 describes the extent to which fixed assets are provided as security under the debenture agreement.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

I.T.L. INDUSTRIES LIMITED AND SUBSIDIARIES

November 30, 1977

NOTE 3 — PROPERTY, PLANT AND EQUIPMENT HELD FOR SALE

The net book value of the Amherstburg facility of the Reflex Division of International Tools (1973) Limited is reclassified since the company intends to sell this asset. The carrying value approximates net realizable value. The insured value at November 30, 1977 is \$1,600,000 (1976 — \$1,400,000). Note 7 describes the extent to which this facility is provided as security under the A.A.B. loan agreement.

NOTE 4 — INTANGIBLES

	1977	1976
Deferred financing and organization costs	\$ 281,730	\$ 294,720
Patents	99,768	111,768
Excess of cost of investment in subsidiaries	1,167,105	1,167,105
over book value of net assets acquired	<u>\$ 1,548,603</u>	<u>\$ 1,573,593</u>

NOTE 5 — BANK INDEBTEDNESS

Bank advances include bank loans (1977 — \$2,779,000; 1976 — \$2,117,000) secured by inventories and a general assignment of book debts, subject to the claims of the demand noteholders as set out in note 9.

NOTE 6 — LOSSES CARRY-FORWARD FOR TAX PURPOSES

The company's subsidiaries have losses for tax purposes at November 30, 1977 of approximately \$3,827,000 (1976 — \$5,070,000) which are available to be applied against taxable income of future years. These losses expire as follows:

	Subsidiaries	
	Canadian	U.S.
1978	\$ 10,000	\$ — 0 —
1979	— 0 —	120,000
1980	— 0 —	309,000
1981	698,000	1,036,000
1982	— 0 —	— 0 —
1983	— 0 —	1,654,000
	<u>\$ 708,000</u>	<u>\$ 3,119,000</u>

No recognition has been given in these financial statements to future tax benefits that may result from the above losses.

A Canadian subsidiary company has an unrecorded deferred income-tax liability of approximately \$150,000 (1976 — \$150,000); the liability arose from timing differences between accounting and tax depreciation that occurred prior to 1968. Depreciation of approximately \$298,000 recorded in the accounts of another Canadian subsidiary has not been claimed for tax purposes and is available to reduce future taxable income; no future tax benefit related to this depreciation timing difference has been recognized.

NOTE 7 — LONG-TERM DEBT

	1977	1976
6.20% Series A sinking fund debentures, maturing June 15, 1978	\$ 149,672	\$ 261,000
6-1/2% Series B sinking fund debentures, maturing December 15, 1979	101,502	177,000
8-1/2% Series C sinking fund debentures, maturing June 15, 1980	442,708	772,000
8% 1969 Series convertible sinking fund debentures, maturing October 1, 1988 (note 8)	3,000,000	3,000,000
8-7/16% Adjustment Assistance Board (A.A.B.) loan, repayable monthly, maturing April 15, 1984	1,107,500	1,107,500
10% first mortgage, repayable \$4,315 (U.S. funds) principal and and interest monthly, maturing April 1, 1992.	390,567	405,841
Lien notes at U.S. prime rate plus 1% repayable \$10,617 (U.S. funds) principal monthly, maturing 1980	312,616	435,270
Other long-term debt, maturing 1980	53,637	216,882
	5,558,202	6,375,493
Less sinking fund and principal payments due within one year	740,210	1,157,310
	<u>\$ 4,817,992</u>	<u>\$ 5,218,183</u>



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

I.T.L. INDUSTRIES LIMITED AND SUBSIDIARIES

November 30, 1977

The debentures are secured by a fixed charge on the fixed assets of Wheatly Manufacturing Limited and a floating charge on the assets of I.T.L. Industries Limited and all subsidiary companies subject to prior charges of the bank (note 5), of the A.A.B. loan on assets of the Reflex Division of International Tools (1973) Limited and of the holders of the 10% mortgage and lien notes on certain fixed assets of I.T.L. Industries, Inc. The A.A.B. loan is also guaranteed by I.T.L. Industries Limited.

On March 31, 1978, the Department of Industry, Trade and Commerce of the Government of Canada waived its present right of action arising from International Tools (1973) Limited's failure to comply with the repayment terms of its A.A.B. loan agreement. The terms of the loan agreement have been revised and among other things require:

- (a) repayment of all unpaid and accrued interest by November 15, 1978
- (b) repayment of principal by monthly instalments commencing December 15, 1978
- (c) an annual accelerated payment not in excess of \$200,000 against the principal balance where the consolidated funds arising from operations exceed \$3,000,000 per annum
- (d) an increase in the rate of interest to 10-5/8% on the principal outstanding after June 15, 1980.

Payments of principal and interest thereon required in the next five years to meet long-term debt instalments and sinking fund provisions are:

	Principal	Interest
1978	\$ 747,210	\$ / 434,369
1979	421,878	384,469
1980	464,362	356,691
1981	383,402	328,704
1982	385,200	275,028

NOTE 8 — SHARE CAPITAL

(a) Authorized:

157,800 preference shares with a par value of \$25 each, issuable in series.
3,057,580 common shares without par value.

(b) Issued and fully paid:

Series A:

44,000 6-1/2% Series A cumulative preference shares, redeemable at their par value of \$25 each. The rights attached to the Series A preference shares require the company to provide a reserve for the purchase of these shares for cancellation. The balance of the purchase reserve at November 30, 1977 was the maximum required amount of \$100,000.

Series B:

43,800 6-1/2% Series B cumulative convertible preference shares, redeemable at their par value of \$25 each after June 1, 1978. Each Series B preference share is convertible into 1.25 common shares on or before June 1, 1978.

During the year ended November 30, 1977, 5,800 shares were converted into 7,329 common shares at a stated value of \$145,000.

Dividend arrears on the Series A and Series B cumulative preference shares amount to \$891,170 at November 30, 1977 (1976 — \$797,940).

Common shares:

1,609,336 common shares. Share Purchase Warrants have been issued entitling the holders thereof to purchase 15,000 common shares of the company (subject to certain adjustments) up to June 1, 1978 at a price varying from \$18 to \$20 per share (subject to certain adjustments) according to the date the warrants are exercised.

Under the terms of the issue of the 8% 1969 Series convertible sinking fund debentures, each \$1,000 debenture is convertible into 42 common shares on or before October 1, 1978, decreasing annually to 33 common shares on or before October 1, 1984.

141,000 shares of the unissued common shares are reserved against conversions of the 1969 Series debentures outstanding at November 30, 1977, and the exercise of the Share Purchase Warrants.

During the year, 7,329 shares were issued on the conversion of 5,800 Series B cumulative convertible preference shares.

NOTE 9 — DEMAND NOTES

Demand notes are payable to the debentureholders in the amount of \$500,000 bearing an annual interest rate of 1% over the bank's prime rate. The noteholders have agreed not to call their loans without prior consent of the company's bank before November 30, 1978. These notes are secured by the accounts receivable of the company and its subsidiary companies. The bank and noteholders are entitled to pro



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

I.T.L. INDUSTRIES LIMITED AND SUBSIDIARIES

November 30, 1977

rata claims against the first \$750,000 of such accounts receivable in accordance with their indebtedness up to a maximum of \$250,000 for the bank and \$500,000 for the noteholders.

NOTE 10 — STATUTORY REQUIREMENTS

(a) Aggregate remuneration of Directors and Senior Officers as defined by The Ontario Business Corporations Act was \$239,871 in 1977 and \$210,496 in 1976.

Senior Officers include the five highest paid employees of the Corporation as required by The Business Corporations Act (Ontario).

(b) Sales by class of business were as follows:

	1977	1976
Contract tools	\$ 7,774,468	\$ 4,878,027
Standard tools and dies	5,289,878	4,441,386
Contract plastic molded products — automotive	1,475,215	1,322,909
Proprietary plastic molded products	4,894,662	3,575,429
	<u>\$ 19,434,223</u>	<u>\$ 14,217,751</u>

NOTE 11 — ANTI-INFLATION LEGISLATION

The company is subject to restraint under the Anti-Inflation Act and Regulations on the amount of dividends, excluding arrears on cumulative preference shares, which can be declared or paid during the period from November 30, 1975 to October 13, 1978. It is not anticipated that the company will be in violation of this legislation.

NOTE 12 — EXTRAORDINARY ITEMS

	Pre-Tax	Applicable Income Tax	Net
Income less expenses applicable to dis- continuation and reduction of operations	\$ 244,347	\$ 103,000	\$ 141,347
Gain on sale of fixed assets	307,743	73,000	234,743
	<u>\$ 552,090</u>	<u>\$ 176,000</u>	376,090
Recovery of income taxes			
Relating to extraordinary items above		\$ 176,000	
Relating to earnings before extraordinary items		522,000	698,000
			<u>\$ 1,074,090</u>
		TOTAL EXTRAORDINARY ITEMS	

NOTE 13 — LEGAL MATTERS

(a) A subsidiary is defendant, together with four co-defendants, in an action where the plaintiff alleges damages of \$1,345,000 (at November 30, 1976, estimated by legal counsel to be \$750,000) resulting from the premature cracking of a die supplied by the subsidiary. Management denies all liability under the claim, submitting that the die was completely tested and accepted by the plaintiff's agent, and that the damage to the die was caused after acceptance. Legal counsel is unable to express an opinion on the outcome of the matter but contends that it is a very remote possibility for the subsidiary to sustain liability from the claim because:

- (1) the company does have several valid defenses
- (2) the company has a counterclaim for unpaid repair service of \$65,000
- (3) there may be partial or total insurance coverage
- (4) there are other co-defendants in the action.

(b) The U.S. Customs Service has demanded \$175,000, principally in penalties against a subsidiary, its customer General Motors Corporation and its custom broker John V. Carr & Son, Inc., for an alleged violation of the U.S. customs laws. Legal counsel has submitted a petition on behalf of the subsidiary company but is unable to advise on the outcome of this matter. Management expects on the basis of legal advice that the liability, if any, to the parties in the transaction will be substantially less than the proposed penalty.

(c) A realtor has sued the company in the amount of \$13,178 claiming costs in the disposition of a prior employee's home. Management contends the claim has no validity.

(d) The company and a subsidiary are defendants in a product liability claim. Legal counsel states that an unfavourable outcomes does not appear indicated at this time.

(e) Subsidiary companies have brought the following actions which are in the pretrial stage:

- (1) Against former employees, alleging breach of contract of employment and fiduciary duty. The company is attempting to recover loss of profit and general damages.
- (2) Against a United States manufacturer for patent infringement.

